

NEW CHALLENGES

FOR INTERNATIONAL
FRANCHISING

35TH ANNUAL
IBA/IFA JOINT CONFERENCE
MAY 7-8, 2019 • JW MARRIOTT • WASHINGTON, DC



News from Around the World

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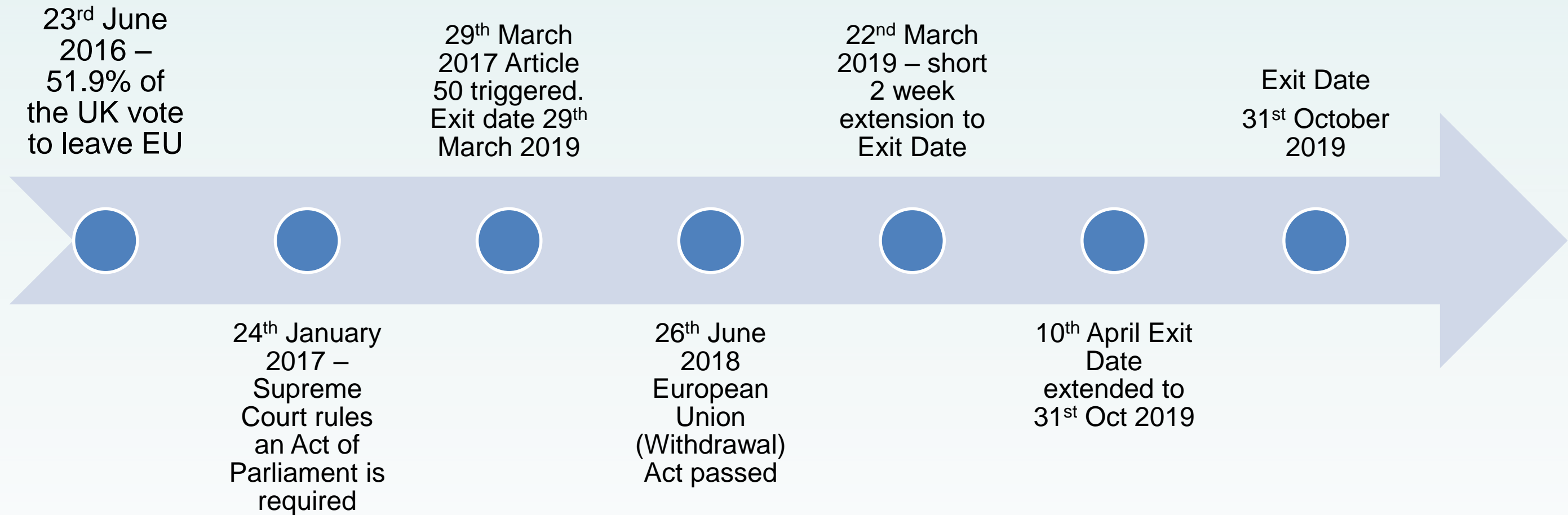


Impact of Brexit on Franchising

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Brexit – Where We Are Now



Brexit - Potential Outcomes

- No withdrawal – no change
- Managed withdrawal with agreement
- Withdrawal without agreement - a “hard Brexit”

Contingency Planning

- UK Government's preparations
 - Department for Exiting the European Union UK
 - Technical Notices (over 106 published)
- EU – contingency planning is more limited
- Impact of a hard Brexit on franchised systems

Intellectual Property

- UK - national rights continue as before
- EU 'unitary' rights - trade marks, design rights
 - At Brexit (deal or no deal) UK splits - new UK 'clone' rights
- Unregistered design rights
- Copyright and database rights
- .eu domain names

Immigration and Employment

- Pre-Brexit – EEA free movement
- Post Brexit –EU Settlement Scheme

EU Settlement Scheme

- Applies to EEA citizens and family members who entered the UK:
 - by 31 December 2020 (if deal)
 - by 29 March 2019 (if no deal)
- Must apply for ‘settled’ or ‘pre-settled’ status within the deadlines

Practical Steps for Employers

- Audit workforce
- Check affected employees have obtained relevant settled/pre-settled status by deadlines
- Employment contracts - conditional on having right to work

Data Protection Implications

- Exit with no deal or if the UK is deemed a third country:
 - Ensure safeguards for data transfers from EEA to UK and UK to ROW
 - EU Representatives
 - Update Privacy notice
 - Privacy Shield – alteration of notices

Competition Law

- Competition law – continued alignment?
- No longer part of the one stop shop EU merger control regime
- Geo-blocking Regulation

International Trade

- Import and export of goods
- WTO rules in the event of a hard Brexit?
 - Increased pressure on the supply chain
 - Delays
 - Currency fluctuations
 - No more conformity in regulatory standards

Dispute Resolution

- Enforcement of English judgments
- Litigation vs arbitration
 - Enforcement and recognition regime under the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (157 parties)
 - Unaffected by Brexit

Conclusion

- Steps to mitigate risk
 - Consider re-negotiating supply terms
 - Hedge against currency volatility
 - Force Majeure - consider definition
 - Use of material adverse change clauses
 - Consider impact on profitability of franchised businesses

Italy: New Rules on Trade Secrets and Know-How

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The implementation of the EU Directive on Trade Secrets in Italy

Directive (EU) No. 2016/943 of June 8, 2016



Italian Code of Industrial Property (CIP), as amended by Legislative
Decree No. 63 of May 11, 2018

Trade secrets: notion and violation

Wide definition of trade secrets.

Broad notion of violation: acquisition, disclosure and use of the trade secret (Art. 99 CIP):

- without the consent of the legitimate holder (including when going beyond the limits of the authorization received);
- without the third party having an autonomous title, i.e. right acquired independently.

Conditions for protection as IP right

Pursuant to Art. 98 CIP, the IP protection is granted to trade secrets provided that the information:

- a) it is not generally known among or readily accessible to experts and operators of the field;
- b) has an economic value because it is secret;
- c) is subject to measures to be considered reasonably adequate to keep it secret, by the person lawfully in control of the information.

Scope of protection

Contractual and extracontractual protection.

Typical IP remedies:

- protective and corrective measures,
- specific provisions on compensation for damages,
- and return of the infringer's profits.

Criminal law protection.

Application to Franchise Agreements (1)

Protection as IP rights, provided that (Art. 98 CIP):

- 1) the information is secret, i.e. not generally known among or readily accessible to experts and operators of the field;
- 2) the information has an economic value: intended by Italian case-law as 'competitive advantage', and not as 'market value';
- 3) the information is subject to measures adequate to keep it secret by its holder (according to Italian case-law: contractual provisions on confidentiality, limited access to selected individuals, IT systems protected by passwords etc.).

Application to Franchise Agreements (2)

Protection under the rules on unfair competition:

Article 2598 of the Italian Civil Code provides:

“Without prejudice to the provisions concerning the protection of distinctive signs and patent rights, it is deemed as committing acts of unfair competition anyone who:

1), 2) (omissis)

3) uses directly or indirectly any other means that does not comply with the principles of professional correctness and is capable of damaging another company.”

Between competitors (e.g. when the former franchisee acts directly or indirectly in competition with his former franchisor).

IP Rules vs. Franchise Law

As IP right (Italian CIP), know-how is included in the definition of trade secrets:

- wide notion
- strong protection

Under the Italian franchise law (Law 129/2004):

- strict notion
- less protected

Know-how in the Italian Franchise Law

The Italian law on franchising (Law 129/2004) requires the written form *ab substantiam*, i.e. for the validity of the franchise agreement.

The contract must provide, among other elements, the specific indication of know-how.

Know-how must be:

- “i) secret, i.e. not generally known or easily accessible;*
- ii) substantial, i.e. which includes knowledge which is indispensable to the franchisee for the use, sale, resale, management, or organization of the contractual goods or services;*
- iii) identified or described in a sufficiently comprehensive manner so as to make it possible to verify whether it fulfils the secrecy and substantiality criteria.”*

Restrictive interpretation

Based on such provisions, several Italian Courts (and scholarship) affirmed that:

- know-how is an essential element of the franchise agreement;
- in the absence of a specific description of know-how in the contract, in compliance with its requirements of secrecy, substantiality and identification, the franchise contract is null and void.

Consequences: entrance fees and royalties to be refunded to the franchisee.

Recent decision of the Supreme Court

Italian Court of Cassation (No. 11256 of 10/5/2018):

- know-how is not an essential element of the franchise contract;
- even where know-how is provided in the contract, the elements listed in its definition must be evaluated in a flexible manner, depending on the complexity of the franchise network concerned and, therefore, on the more or less regulated business activity. Namely:
 - ‘confidential’: not totally inaccessible, but ‘not generally know or easily accessible’;
 - ‘substantial’: ‘an effective economic utility for the franchisee, which he uses in the exercise of his activity in that specific franchising network’; and
 - ‘identified’: ‘described in a sufficiently comprehensive manner, such as to enable it to verify whether it meets the criteria of secrecy and substantiality’.

IP Rules vs. Franchise Law

Basically, in its last decision (No. 11256 of 10/5/2018), the Italian Supreme Court provided for an interpretation of know-how more in line with the recent international trends and with the new rules on trade secrets.

Waiting for a further confirmation of this approach by case-law.

Practical tips for franchisors (1)

While drafting the franchise agreement:

- clearly identify in the contract the scope and limits of confidentiality obligations that franchisees must comply with, both during and after the end of the franchise relationship;
- include liquidated damages clauses applicable in case of violation;
- carefully describe know-how in the contract, until the recent interpretation of the Supreme Court is fully confirmed;

Practical tips for franchisors (2)

During the franchise relationship:

- put in place adequate measures to protect the franchisor's know-how and trade secrets, e.g. limited access to software, password, etc.

In case of dispute:

- claim protection of trade secrets and know-how both as an IP right and under the rules of unfair competition; and
- give sufficient evidence of all the requirements provided by IP and franchise rules.

United States

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What is a “no poach” agreement?

An agreement with another company, or companies, not to compete with each other in relation to each other’s employees

Background

- July 2018 – State Activity
 - 11 state attorneys general sent letters to several large national franchisors
 - Washington attorney general announced settlement with 7 national franchisors to end restrictions on movement of workers.

Background

- Recent developments – U.S. Federal Activity
 - Several U.S. DOJ investigations conducted on whether no poach agreement among employers violate federal antitrust law.
 - DOJ put businesses on notice of possible civil enforcement actions and criminal prosecutions.

Stigar v. Dough Dough Inc.

- U.S. Federal and state attorneys general advocating opposite legal interpretations within a single proceeding.
 - DOJ: rule of reason; vertical restraint
 - Washington AG: per se rule; horizontal restraint

Waves of Settlements

- Washington AG has been targeting different franchise sectors:
 - Health clubs
 - Automotive suppliers
 - Tax preparers
 - Cleaning services

Other Activity

- U.S. Congress
 - Senators Cory Booker and Elizabeth Warren suggested no poach provisions contributed to wage stagnation

On the horizon

- Settlements continue
- Franchise systems are well advised to undertake an antitrust-focused review of their franchise agreements and policies.

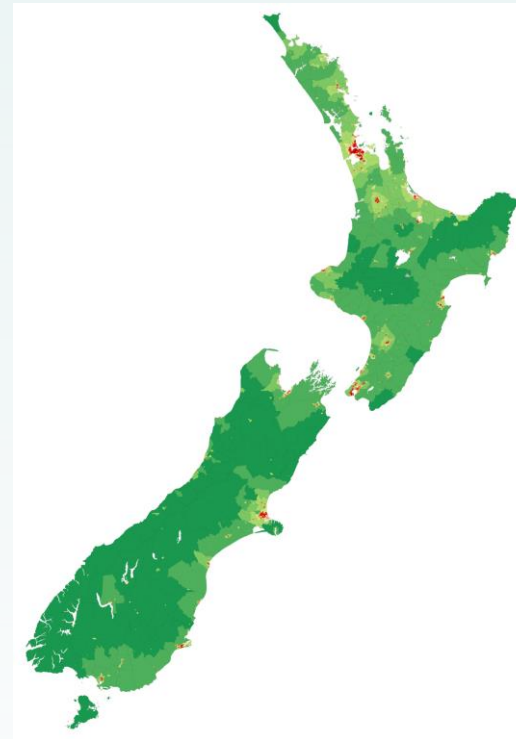
New Zealand

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Auckland

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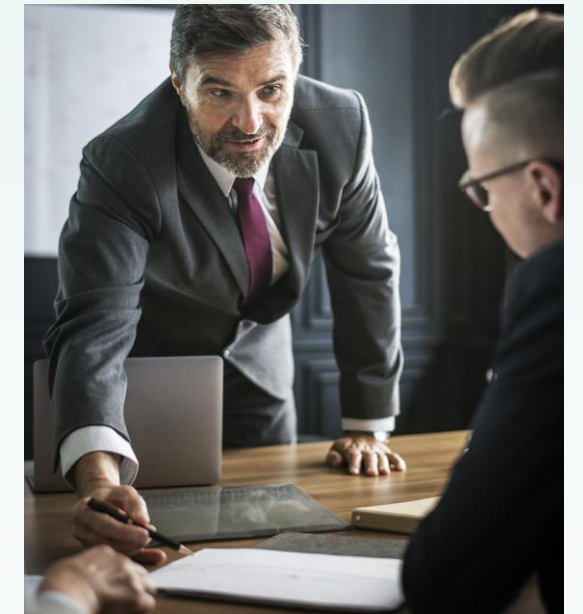
Franchising in New Zealand

- No specific franchising laws.
- Existing laws include Fair Trading Act 1986, Commerce Act 1986 and the Contract and Commercial Law Act 2017.
- Franchise Association of New Zealand (FANZ) was formed in 1996 and it has a Code of Practice and Code of Ethics.

Cartels Legislation

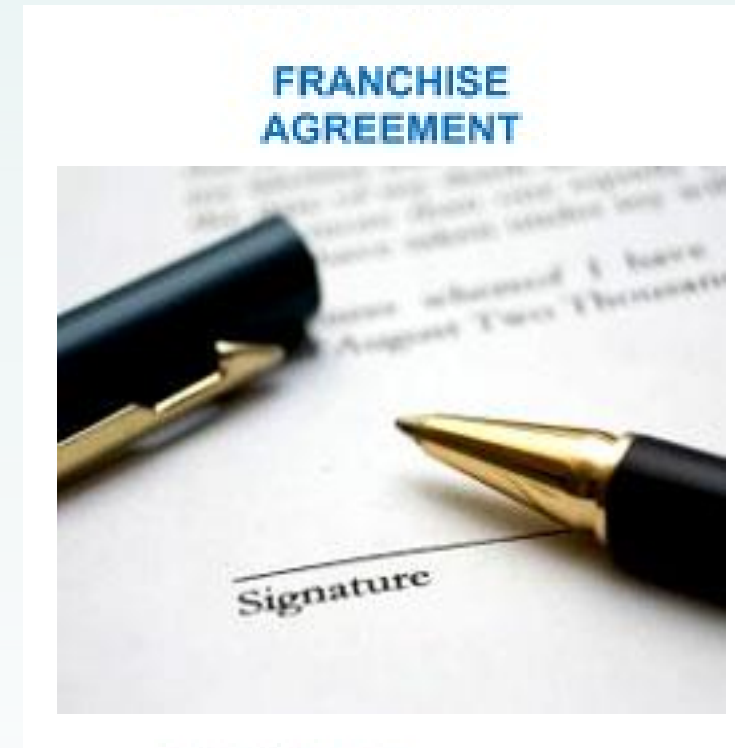
Commerce (Cartels and Other Matters) Amendment Act 2017 became law in August 2017. It amended the Commerce Act 1986 and key changes include the following:

- Cartel conduct prohibition.
- Collaborative activity exemptions.
- Vertical supply contract exemption.
- Joint buying and promotion agreements exemption.



Effect on Franchise Agreements because of Cartels legislation

- Grant of franchise.
- Marketing.
- Licensed products.
- Approved suppliers.
- Restraint area and period.
- Location.



Commerce (Criminalisation of Cartels) Amendment Act 2019

- New criminal offence for cartel conduct and the criminal sanctions reflect the covert nature of cartels.
- Commerce Act 1986 provides a number of statutory exceptions which would not constitute a cartel arrangement and may be pro-competitive.
- There are no defences for mistakes of fact relating to the elements of joint buying and promotion and vertical supply contracts.

Commerce (Criminalisation of Cartels) Amendment Act 2019 (continued)

- It will be possible in the future for a director of a franchisor company to be criminally liable under the Act for a cartel offence.
- For an individual who commits an offence the penalty on conviction could be imprisonment for a term not exceeding 7 years or a fine not exceeding NZ\$500,000, or both.
- For a company which commits an offence the penalty could be up to NZ\$10 million.

Recent cases

- Supa Treats Asia Pte Limited v Grace & Glory Limited and Others – this case involved the ice cream parlour brand Wendy’s Supa Sundaes. Interim injunction granted.
- Mike Pero (New Zealand) Ltd v Heath and Others – interim injunction application against a former franchisee and injunction granted.
- Dorn Investments Limited v Paul Hoover – this case involved the brand Green Acres in New Zealand. No injunction granted.

There is a trend by the New Zealand courts to enforce restraint of trade provisions where warranted.

CANADA

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Canada

FRANCHISE LEGISLATION IN CANADA

- **6 of 10 provinces in Canada have franchise laws**
- **British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Prince Edward Island**
 - Uniform Law Conference
- **Quebec – Civil Law Jurisdiction**
 - Contract of Adhesion

FRANCHISE CASES OF NOTE

- **2018/2019 – Raibex decision continues to dominate**

FRANCHISE CASES OF NOTE

- **Raibex decision continues to dominate**
 - September 7, 2016 decision of the Ontario Superior Court
 - Raibex Canada Ltd. v. ASWR Franchising Corp. 2016 ONSC 5575

FRANCHISE CASES OF NOTE

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 - All Star Wings – Ontario Superior Court granted a two year right of rescission remedy to the franchisee

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 - Key facts

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 - All Star Wings – Ontario Superior Court granted a two year right of rescission remedy to the franchisee
 - Key facts
 - “premature disclosure”

FRANCHISE CASES OF NOTE

- **2018 Raibex Court of Appeal Decision**

FRANCHISE CASES OF NOTE

- **2018 Raibex Court of Appeal Decision**
 - Impact on franchising in Canada?

FRANCHISE CASES OF NOTE

- **Modern Cleaning – Supreme Court of Canada decision**
 - Employees vs. Independent contractors
 - SCC decision?

FRANCHISE CASES OF NOTE

- **Tim Hortons in the News**
 - \$500 million class action suit

FRANCHISE CASES OF NOTE

- **Tim Hortons in the News**
 - \$500 million class action suit
 - March 2019 proposed settlement

OTHER LAWS AFFECTING FRANCHISING

Ontario: Cutting Unnecessary Red Tape Act

- Included amendments to the franchise legislation in Ontario
- Change of Government in Ontario, amendments not yet in force

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New Trademarks Act

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- Madrid Protocol

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Questions?

